

IRS News Release

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Health Insurers Get More Time from IRS To Make Incentive Payments

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WASHINGTON — The IRS has issued guidance today to health insurance companies and health maintenance organizations (HMOs) giving them more than 2 ½ months from the end of their tax year to make incentive payments and still take the related deduction.

Health insurance companies and HMOs have developed arrangements with physicians, groups of physicians and other health care providers where, after the end of the insurer's taxable year, they make incentive payments to the health care providers for meeting objectives related to providing quality health care in a cost-efficient manner.

Normally, the company could not take a deduction for the payments for the year for which the incentive payment applies if they were made more than 2 ½ months after the end of the taxable year. These companies face unique administrative challenges in performing the relevant calculations, and often need more than 2 ½ months to collect the necessary data and complete those calculations. Under the guidance issued today, these companies will not be held to the 2 ½ month period.

"We believe that this guidance eliminates any controversy over treatment of incentive payments to physicians and other health care providers and relieves health insurers and HMOs of an administrative burden that is unnecessary, in light of the special rules that apply to insurance companies under the tax law," said Deborah Nolan, Commissioner of the Large and Midsize Division of the Internal Revenue Service. "This guidance was a direct result of IRS employees working with representatives of the health insurance industry to solve tax problems through the Industry Issue Resolution program."

The Industry Issue Resolution (IIR) program was launched in 2001 by the IRS and tackles tax issues submitted by taxpayers, associations and other groups representing businesses. The objective is to resolve frequently disputed or burdensome tax issues more efficiently.

The guidance, Revenue Procedure 2004-41, attached, will appear in Internal Revenue Bulletin 2004-30, dated July 26, 2004. Information on the IIR program is found in Revenue Procedure 2003-36 and is available at IRS.gov.